



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO  
607 North 8th Street  
BOISE, IDAHO 83702

MINUTES  
OF  
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m. September 23, 2005. The following members were present:

Jody B. Olson  
Clifford T. Hayes  
Jeff Cilek

Trustees J. Kirk Sullivan and Pamela I. Ahrens were absent and excused. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe and Management Assistant Joanne C. Ax were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Rod MacKinnon  
Bill Palumbo  
Brian McGrath  
Drew Black  
Dona Van Trease  
Mike Boren  
Dave Boren  
Tim Dunn  
James Coleman  
Geoff Bridges  
Robert Schmidt  
Michael Iaiboni  
Keith Mersman  
Rafael Stone

Mountain Pacific Investment Advisors  
Mountain Pacific Investment Advisors  
DB Fitzpatrick & Co.  
DB Fitzpatrick & Co.  
IPEA  
Clearwater  
Clearwater  
Clearwater  
Retired Teachers  
Milliman  
Milliman  
Milliman  
Milliman  
Foster Pepper

## EXECUTIVE SESSION

Citing Idaho Code §67-2345(b) which allows the Board to discuss personnel issues privately, by motion duly made by Trustee Hayes and seconded by Trustee Cilek, the Board convened in Executive Session at 8:30 a.m. They reconvened in open session at 8:45 a.m.

Chairman Olson said that during the Executive Session, the Trustees conducted the annual performance review of CIO Robert Maynard. In addition to the Investment Manager Conference attended by PERSI managers from around the world, he has guided the PERSI investments adding over a billion dollars in the years since he took the position. This year, compared to peers, PERSI's returns rank in the top 9% in the country. By motion duly made by Trustee Hayes, seconded by Trustee Cilek, and unanimously approved by Board members present, the Board awarded the maximum bonus of 30% of salary and a 3% on-going merit increase to Mr. Maynard.

## MINUTES

Approval of the Minutes: By motion duly made by Trustee Hayes and seconded by Trustee Cilek, the Board unanimously approved the minutes of the August 23, 2005 meeting. In a separate motion made by Trustee Hayes and seconded by Trustee Cilek, the Board unanimously approved the minutes of the August 26, 2005 Investment Sub-Committee Meeting.

## PORTFOLIO

Monthly Portfolio Update: At the conclusion of today's meeting, a meeting of the Investment Sub-Committee will be held to discuss the Hamilton Lane Investment Fund and Blackstone.

Mr. Maynard has designed a four-page investment report which he discussed with the Trustees. The report will provide a quick monitoring tool for them to see what is happening with the portfolio, major drivers and how they fit together – for better or worse. Readers will be able to track which of the major bets the Board has made that are working and it will raise a flag if something is not working as expected. Investment Officer Richelle Sugiyama will continue to add explanations on each manager's performance. The fuller report with much more detail will be available each month on the PERSI website at [www.persi.state.id.us](http://www.persi.state.id.us)

Comments from his report dated 9/22/2005 include:

Despite natural disasters, rising short term interest rates, and surging energy prices, the new fiscal year is starting out quite

strong, with global and international equities leading the way. The fund as a whole is up 3.7% for the new fiscal year and 0.6% this month. A continuing robust economy alongside still better-than-expected corporate profits have combined to continue the market rise, with some softening of late. Bonds have suffered as interest rates have risen a bit across the board in line with the Federal Reserve's indications of continued interest rate increases. Emerging markets are the best performing capital market once again.

Bernstein Emerging and Genesis are the leading performers in absolute returns, followed by the Zesiger public portfolio. Zesiger and private equity, followed by Donald Smith, are the best performers against benchmark. The bond accounts are only slightly positive for the fiscal year so far. Mountain Pacific is starting out the fiscal year with the worst relative performance of the accounts, and Tukman continues its struggles.

Of PERSI's major strategic leanings, global equity managers are helping the most relative to the fund's strategic benchmark (55% US equities, 15% international, and 30% fixed), and few policies are hurting. Overall, the fund is ahead of the strategic benchmark for the fiscal year by 1.2%.

Replying to a question from the Chair, Mr. Maynard said we usually leave the profits an equity manager makes with that firm for re-investing unless our fixed income allocation moves either up or down from the 30% target. At that point, we rebalance into an equity position that is underweighted. The 30% fixed income target assumes that all equity dollars are invested, but because of liquidity needs, that is not true.

Trustee Hayes asked what our formula is for changing or eliminating managers. Mr. Maynard replied that we tend not to fire managers for performance reasons alone. He went on to explain that the balance of the portfolio depends on investments that do well in different kinds of markets. If a manager's returns are down and he has the same staff, the same process, same procedures, has not been acquired by another firm, and is investing in the same type of stocks, the market is probably just not in their cycle which could last for three or four years. He mentioned Tukman who recently has been having terrible returns. Earlier, they were our best performing manager with stunning returns, yet have not changed anything. On the other hand, when Saker Neseibeh left TCW, we knew we relied on him to manage our portfolio there. We also may change our policy and decide we don't want a particular type of manager any more. Over the years, we know

Mountain Pacific and Tukman will do poorly. They are counterbalances for other things in our portfolio.

Private Equity Report – Hamilton Lane: Mario Giannini and Paul Yett had prepared a performance summary reviewing the private equity portion of PERSI investments. First, though, Mr. Giannini said Mr. Maynard has asked him to monitor and report on the private account portion of the Zesiger investments. That company has distributed \$4 million to PERSI in 2005 which is a significant distribution. He then reviewed the performance of all the investments, what has driven the performance, new and pending commitments, cash flow activity and significant distribution activity. PERSI has received \$26.2 million from the underlying private equity partnerships during the second quarter of 2005. Chairman Olson applauded the team and Mr. Maynard, noting that since 1992 he has encouraged private equity investments for PERSI. Mr. Maynard added that a program like this takes time to develop and to begin to see the benefits of the longer-term commitments that are required.

Investment Manager Comments: Chairman Olson invited managers who were present to comment on the markets and the economy. Clearwater Advisors said its been a boring fixed income year, yet not too bad. Now, with the gulf disasters, energy and world inflation, they expect short term pressures of more inflation with the Federal Reserve Board raising interest rates at least one or two more times. Long-term rates will edge up when that happens. The huge fiscal stimulus with the rebuilding of the damage in the gulf will be hard to predict. They expect short term turbulence and higher rates with more flat fixed-income returns in the next quarter. Brian McGrath said our economy is sensitive to short-term rate increases and believes the Federal Reserve Board is going too far is raising short-term rates. He thinks the economy will be slowing a little in the future and thinks that global pressure may keep the long-term rates low. Referencing Mountain Pacific's low returns, Bill Palumbo said he and partner Rod MacKinnon have not changed their investment process, their risk profile is the same as always. What changes is the market appetite for risk which determines performance of a portfolio like Mountain Pacific's. The market appetite for risk is greater now as the Federal Reserve Board is in an inflation fighting mode. He thinks the Federal Reserve Policy will soon affect earnings growth and the economy will slow. He believes the increased interest rates are "overshooting the need" now, because high energy prices are acting as a huge tax on the economy.

#### EXECUTIVE DIRECTOR

PERSI and FRF Preliminary Actuarial Valuations: Milliman had provided a memorandum dated September 22, 2005 with analysis and

charts. A slide presentation by Robert Schmidt and Geoff Bridges summarized the preliminary results of their actuarial valuation for fiscal year 2005. The annual valuation measures the funding status and amortization period as of a single valuation date, July 1, 2005. This determines if contribution rates are sufficient to amortize the unfunded liability over a period consistent with statutory requirements. This information also assists the Board in their decision on the discretionary COLA. Chairman Olson asked at what point the payment of benefits will exceed the contributions. Mr. Bridges said with the contribution rate increases, the tipping point is expected to be around 2010. Mr. Bridges then discussed the FRF benefit structure which has been a closed plan for the last 25 years. New firefighters become part of the PERSI base plan. They have a wage-based COLA based on wages paid to current firefighters. Funding comes from the employers and members as well as state fire insurance premium taxes. Trustee Hayes asked how the life expectancy assumption of 80 years was chosen for the illustrations. Mr. Schmidt said every four years we conduct a mortality rate study using PERSI data and the mortality assumption is set from that. The final valuations will be presented at the next meeting for discussion and adoption.

Contribution Rate Discussion/Decision: Mr. Winkle had previously provided a memorandum dated September 15, 2005 to the Trustees. Chairman Olson said the Trustees had spent a tremendous amount of time, including a half-day retreat, discussing the issue. In response to a question from the Board, Mr. Winkle said a one-year delay of the contribution rate increase would add .5 years to the amortization rate. Making the decision at this time would give employers more time to plan their budgets. Trustee Sullivan was not present at this meeting and Trustee Hayes asked if the Chairman had discussed the issue with him. Chairman Olson said he had spoken with Mr. Sullivan who is comfortable with delaying the increase another year. By motion duly made by Trustee Hayes and seconded by Trustee Cilek, the Board directed staff to prepare a rule delaying the approaching contribution increases to 2007 and 2008. Deputy Attorney General Goodsell will prepare the rule for review at the October Board meeting.

New Employers: The Caldwell Irrigation Lateral District and The City of Newdale have requested admittance to the PERSI system effective October 1, 2005. There are no entry costs for either of these employers to join PERSI. By motion duly made by Trustee Cilek and seconded by Trustee Hayes and unanimously approved by members present, the Board welcomed the two political subdivisions as new PERSI employers.

Status Update: Mr. Winkle reviewed his memorandum dated September 16, 2005 which had previously been provided to the Trustees. The PERSI Answer Center (PAC) went "live" on Monday, September 19 and is going

smoothly. Staff members have new phone software, rearranged offices and are adjusting to their new work. Equipment is being installed now to begin converting our present microfilm records to imaging. We expect the PERSI Processing Center (PPC) to go "live" the first of December and the Employer Service Center (ESC) to be fully functional by January 2006.

Member account statements are being printed and will be mailed in waves beginning the week of September 26. Once again, staff processed a record number of retirees for a September 1 effective date. The end of teacher contracts the end of each August traditionally swells the September count. This year it increased 13.5% to 677 retirees. Our monthly payroll has increased by over a million dollars.

Mr. Winkle has continued to participate with the Department of Administration in the process of a Long Term Care insurance product for State employees. The target is to offer it to State employees and state retirees by the first of 2006. He and D.C. Plan Manager Diane Berg are meeting after the Board meeting with a group of legislators interested in the Retiree Return to Work issue. Ms. Berg has conducted a comprehensive survey of other states. Other projects this month included meeting with The Statewide Health Insurance Benefit Advisors through the State Department of Insurance so PERSI staff understands the Medicare Part D program and can direct callers to the proper resource and provide payroll deductions if appropriate. We are also working with Callan to issue a Request For Proposals (RFP) for Choice Plan record keeping. We are not unhappy with our present vendor, but because it has been five years we want to ensure that we have the best provider in the marketplace for our needs. Another contract that expires soon is our disability program provider with VPA which will be rebid the first part of next year.

NEW BUSINESS: Chairman Olson had asked Rafael Stone of Foster Pepper Shefelman's Institute of Fiduciary Practice to review the Board indemnification issue. Mr. Olson explained the Board's concern which has been discussed with Attorney General Wasden. Mr. Stone will review the state policies, the tort act and provide a memorandum to the Board with suggested changes if needed.

## FISCAL

Fiscal Update/ Administrative, Portfolio Reports: Financial Officer James Monroe reviewed his September 15, 2005 memorandum to the Board. The annual audit is progressing well and will be on the October meeting agenda for approval. The audit committee will review a draft at a meeting October 12. The budget request has been submitted. The final number needed for portfolio personnel costs was \$35,000. The 1% lump sum staff pay increase resulting from HB 395 has been processed; employees will receive the performance based award on October 7.

He then reviewed the Administrative and Portfolio expense reports that had previously been furnished to the Board. These reports cover two months of the fiscal year 2006 and reflect the annual budget and cash basis expenditures for the two funds as appropriated by the Legislature for the year. Chairman Olson asked how PERSI's administration costs compare with operating costs of other systems. Regarding Portfolio expenses, Mr. Maynard said we are in line with other systems. Mr. Winkle said on the Administrative side, we spend less than the average system. Chairman Olson asked for those comparison figures; Mr. Winkle will provide those to him.

FUTURE MEETINGS:

Proposed dates for 2006 had been distributed in a memo dated September 15, 2005 to the Trustees. After reviewing the input from other Trustees, Chairman Olson suggested that there be no meeting in June 2005, that a combined November and December meeting be set and that an out-of-town meeting be planned for Post Falls, Idaho. Ms. Ax will distribute those suggestions to the Trustees; the meetings for 2006 will be formally set at the December 7, 2005 meeting. Regular meetings scheduled for the remaining months of 2005 are:

Tuesday, October 25, 2005, 8:30 a.m., Boise - PERSI office

NO MEETING IS PLANNED FOR NOVEMBER 2005.

Wednesday, December 7, 2005, 8:30 a.m. Boise – PERSI office

Adjournment: At 11:10 a.m., there being no further business to come before the Board, the meeting was adjourned.

Jody B. Olson  
Chairman

Alan H. Winkle  
Executive Director